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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
February 25 2005 ISSUE

¶1. SUMMARY. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics in the February 25 newsletter include:

- 2005 Budget aims to sustain faster growth
- Public sector capex to increase to 18 percent
- Social security grants increase for poor and disabled
- Tax relief for small businesses
- Leading economic indicator falls
- CPIX inflation hits record low
- 1.4 percent PPI raises hopes of interest rate cut
- AIDS increases South Africa deaths by 57 percent

END SUMMARY.

2005 BUDGET AIMS TO SUSTAIN FASTER GROWTH

¶2. Finance Minister Trevor Manuel unveiled a 2005 budget aimed at sustaining faster economic growth while curbing budget deficits. Gross domestic product (GDP) growth for 2005 was revised up to 4.3 percent from 3.9 percent previously. The economy expanded by 3.7 percent in 2004 - its fastest pace since 2000, when it grew by 4.3 percent. Higher revenues from value-added and income taxes helped boost government income more than R11 billion ($1.9 billion) above previous estimates, allowing Manuel to cut the corporate tax rate to 29 percent from 30 percent and hand back R6.8 billion ($1.2 billion) in personal tax relief for the 2005/06 fiscal year, beginning in April. The government plans to spend R180 billion ($31 billion) on infrastructure - ports, rail, power stations and dams - over the coming five years. Growth was expected to average 3.8 percent in 2006, quickening to 4.4 percent in 2007. This growth compares to predictions of 3.7 percent and 4.2 percent respectively last October. The stronger economy helped South Africa to sharply cut its budget deficit estimate for fiscal 2004/05 to 2.3 percent of gross domestic product (GDP), sharply below the 3.2 percent estimated in November's medium term budget policy statement. The Treasury said although the rand had taken a toll on the manufacturing and mining sectors, it had also suppressed inflation pressures, which meant the targeted CPIX measure was expected to remain inside the 3 percent-6 percent band well into 2007. (Reuters, February 24)

PUBLIC SECTOR CAPEX TO INCREASE TO 18 PERCENT

¶3. South Africa's public sector capital expenditure (capex) is expected to grow at an average of 18.8 percent over the year-year period covered by the 2005 Medium Term Expenditure Framework (MTEF) up from an average of 11.7 percent a year between 2001/02 and 2004/05, according to National Treasury's Budget Review. Increased public spending of R27.3 billion ($4.7 billion) will be for Municipal and Provincial Infrastructure Grants to accelerate the eradication of apartheid era backlogs in township roads, water, sanitation, street lighting, community centers, provincial roads, schools, and clinics, and to increase employment through labor intensive construction methods via the Expanded Public Works Program. An additional R5 billion ($862 million) will be provided to the housing budget and Community Infrastructure and an extra R4.35 billion ($750 million) will be allocated for roads, rail, and transportation upgrades for the 2010 World Cup. Other large infrastructure budgets include R4.3 billion ($741 million) for the hospital revitalization program, R3.3 billion ($569 million) for the national Public Works program, and R5.8 billion ($1 billion) for prison facilities, police stations, and court facilities. Transnet, the state-owned transport utility, plans to spend about R30 billion ($5.2 billion) on ports, freight rolling stock, rail, and fuel pipelines. Eskom's, the state-owned power utility, infrastructure plans amount to R56 billion ($9.7 billion) and include investments

in power generation, transmission, and distribution. Total capital expenditure by non-financial public enterprises is estimated to be about R115 billion ($19.8 billion) over the MTEF. (I-Net, February 24)

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SOCIAL SECURITY GRANTS INCREASE FOR POOR AND DISABLED
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¶4. Finance Minister Trevor Manuel announced social security grant increases for the poor, disabled, and vulnerable children. As of April this year, qualified individuals will receive an additional R40 ($6.89) to their grants, totaling R780 ($134.48) a month. Manuel said the foster care grant would increase by R30 ($5.17) to R560 ($96.55) while the child support grant has been increased to R180 ($31) a month. Although the increases would have a major impact on the income security of the most vulnerable, particularly in support of children under the age of 14, Manuel also noted that the expansion of the grants carried costs. "Of the R74 billion ($12.76 billion) in additional allocations over the MTEF, a total of 30 percent is added to the social grant programs, bringing aggregate social security spending to R55.4 billion ($9.55 billion) next year and 12.7 percent of consolidated spending by 2007/08," he explained. He added the increase in social spending was due to the strength of the economy and tax collection that had seen the treasury projecting to raise R11 billion ($1.9 billion) more this year than budgeted. (BuaNews, February 23)

TAX RELIEF FOR SMALL BUSINESSES

¶5. In a bid to stimulate the economy and create jobs by developing small businesses, Government announced tax relief of R1.4 billion for small companies, effective April 1. Finance Minister Trevor Manuel said the new tax regime will cover small business corporations (SBC), provided they maintain at least four full-time employees for core operations. To qualify as a SBC, Government has increased the turnover limit for eligible companies from R5 million ($862k) to R6 million ($1.03 million). The tax relief means that a SBC with a taxable income of R400,000 ($68,965) could save from R32,500 ($5603) to R55,000 ($9483) in income tax. The tax rate of small companies in other sectors including close corporations will be reduced from 30 percent to 29 percent. The South African Revenue Services (SARS) will also lend a hand to small businesses to be compliant of their tax returns, by deploying "tax helpers" to areas where small businesses are situated to help with tax registration, returns and business tax obligations. SARS has dedicated a help desk solely for small business inquiries about tax compliance. (BuaNews, February 23)

LEADING ECONOMIC INDICATOR FALLS

¶6. South Africa's December 2004 leading economic indicator, which is compiled by the South African Reserve Bank (SARB), fell by 0.9 percent month-on-month (m/m), its steepest monthly decline since May 2003. This decrease pushed the year-on-year (y/y) increase down to 7.7 percent, its first fall into single-digits since February 2004, from 10.8 percent in November. For the year as a whole, the leading indicator rose by 10.6 percent in 2004 after a 7.0 percent decline in 2003. Of the 13 components in December 2004, only one - job advertisements - had a positive impact, four were unavailable and eight were negative. The negative factors were average manufacturing hours worked, manufacturing orders, building plans approved, the interest rate spread between the money market and capital market instruments, equity prices, real M1 money supply, the commodity price index and the leading indicator of major developed countries. The unavailable data was for labor productivity, business confidence, the inventory/sales ratio and the gross operating surplus as a percentage of GDP. The South African economy is currently in a record upturn, as the current upturn started in September 1999. The previous record upturn was from September 1961 to April 1965. (I-Net, February 18)

CPIX INFLATION HITS RECORD LOW

¶7. The targeted CPIX inflation rate slowed to a record low of 3.6 percent in the year to January as expected, versus 4.3 percent the previous month. Figures from Statistics South Africa also showed the all-items consumer price index (CPI) rose by an annual rate of 3 percent during the month versus 3.4 percent in December. On a monthly basis, CPIX rose 0.5 percent while CPI rose 0.3 percent. Both fell by 0.2 percent in December. It was the 17th straight month that the CPIX measure - which strips out the impact of

volatile home loans - was inside the government's 3-6 percent target range. Moderating medical costs, a cut in fuel prices and slowing food inflation were the main factors behind the number. But the biggest long-term trend behind subsiding inflation is the rand, which has chalked up three straight years of huge gains against the dollar. Figures from Statistics South Africa also showed the all-items consumer price index (CPI) rose by an annual rate of 3 percent during the month versus 3.4 percent in December. On a monthly basis, CPIX rose 0.5 percent while CPI rose 0.3 percent. Both fell by 0.2 percent in December. (Reuters, February 25)

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1.4 PERCENT PPI RAISES HOPES OF INTEREST RATE CUT
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¶8. Producer price inflation slowed dramatically in the year to January, coming in well below forecasts, sending bond yields to their best ever levels and reinforcing market expectations of an April rate cut. The producer price index (PPI) rose by 1.4 percent in the year to January, better than December's 1.9 percent rise and well below a consensus forecast of a 2 percent rise. Statistics SA said sharply slower increases on petroleum and coal were the main factors behind the improvement. Expectations of a rate cut were boosted on Wednesday when Stats SA said the targeted CPIX consumer inflation measure had slowed to a record low of 3.6 percent. The bond market reacted by extending its rally, with the yield on the key R153 ($26.38) bond strengthening more than 8 basis points to a new best of 7.43 percent. (Business Report, February 25)

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AIDS INCREASES SOUTH AFRICA DEATHS BY 57 PERCENT
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¶9. South Africa's death rate jumped 57 percent between 1997 and 2003 with HIV/AIDS emerging as one of the main causes of death in the 15 to 49 age bracket, according to a study by Statistics SA. Chief statistician Pali Lehohla said that data from about three million death certificates issued between 1997 and 2003 "provide indirect evidence that the HIV epidemic in South Africa is raising the mortality levels of prime aged adults in that associated diseases are on the increase." According to the report, tuberculosis killed 37,917 people aged between 15 and 49 in 2001 while HIV/AIDS claimed 7,564. Tuberculosis, influenza and pneumonia are frequently opportunistic infections associated with HIV/AIDS. South Africa has the highest HIV/AIDS caseload in the world with 5.3 million people, or one in five adults, living with HIV and AIDS, according to UN figures. The British medical journal The Lancet this month cited estimates from the South African Medical Research Council showing that the number of deaths linked to HIV/AIDS was likely to be three times as much as the one in the government statistical report. The release of the latest statistics on the causes of death came a week after President Thabo Mbeki declared in his state of the nation address that his government's plan to fight AIDS was "the best in the world." (AFP, February 18)

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